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Weekly Contributions
Latin America Branch, ORE, CIA
26 July 1949

CURRENT DEVELOPMENTS

NORTHERN DIVISION: Suppression of the 18 July uprising in Guatemala has strengthened President Arévalo's control (p. 2).

CENTRAL DIVISION: Prospects are reasonably good for economic treaties between the US and Brazil advantageous to both countries (p. 2).

SOUTHERN DIVISION: The Peruvian coup reported to be planned for 28 July is unlikely to take place (p. 3). Stability prospects in Paraguay are again uncertain (p. 3).

SPECIAL SUBJECTS

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1. GUATEMALA: Control of the Guatemalan Government by President Arevalo's leftist administration now seems assured following the recent bloody but abortive uprising in the wake of the assassination of Colonel Arana, Chief of the Armed Forces. The success of the government in quelling this revolt of conservative-minded young army officers was partially due to the cooperation given the police force and loyal elements within the army by organized armed civilian groups affiliated with the leftist political parties and labor unions. The military effectiveness of these heretofore untested groups and replacement of disloyal officers with those of proven loyalty should greatly strengthen President Arevalo's regime. The somewhat hostile attitude of the administration toward the US and US business interests is not expected to change as a result of the uprising. (From CIA Weekly, 22 Jul 49)

2. BRAZIL: Prospects for Economic Treaties

The US is now prepared to enter into formal negotiations with Brazil regarding economic subjects of mutual concern, according to a note from the US Secretary of State to the Brazilian Ambassador. The US proposes that the negotiations include: (1) a treaty of friendship, economic development and commerce, with investment provisions; (2) a treaty on the tax relations between the two countries; (3) a joint undertaking relative to exchange convertibility guarantee; and (4) an arrangement for liquidation of past-due commercial dollar exchange commitments in Brazil. These proposals are in accordance with the joint announcement of Presidents Truman and Dutra, during the latter's recent visit to Washington, as to the desirability of fostering mutually beneficial economic development and social progress.

An arrangement for the liquidation of the dollar backlog due US exporters would do much to alleviate the present economic difficulties of Brazil (see B/LA Wkly, 19 Jul 49), and the successful negotiation of the remainder of the US proposals would greatly encourage the flow of US capital investment into Brazil and thus, on a long-term basis, strengthen and develop that country's economy and increase its capacity to provide the US with critical materials.

It is probable that the majority of these proposals will be well received in Brazil. There may be some difficulty, however, with the draft Treaty of Friendship, Economic Development and Commerce in its present form. It may therefore be several months before the negotiations are concluded and treaties submitted to the

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respective governments for ratification. There may be, also, certain fields in which the Brazilian Government will not find it politically feasible to encourage US investments; for example, in the field of petroleum development. President Dutra and other government officials are known to fear the pressure that could be brought to bear by the ultra-nationalists and Communists in a revival of the "Defense of Petroleum Campaign" that gained such momentum during 1948 (see B/LA Wldy, 31 Aug 48 and 22 Mar 49).

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3. PERU: Reported Plans for Revolt

two exiled Peruvian Army officers have plans for a coup against the Peruvian Government to take place on or about 28 July. The Peruvian officers claim to have support within Peru and good chances for success.

The present Peruvian regime is maintained in power principally by the support of the army, which is divided into opposing political factions. Thus open dissension and even an armed coup is always a possibility. The leaders of the reported plot are known to be members of groups that oppose the Odría administration; they are, furthermore, individuals likely to take long chances. Possibilities for success in this particular venture, however, depend largely on the officers' ability to gain reentry into Peru and to establish contact with dissident elements of the Peruvian Army, neither of which is certain. The strength of Odría's faction, moreover, is such that B/LA estimates the chances for a successful coup by this group are not good. (Substance used in CIA Weekly, 22 Jul 49)

4. PARAGUAY: Recent tension between the army and the civilian Colorado government has aroused concern in Asuncion and is apparently responsible for rumors of an impending military coup. Reports of division among the civilian elements of the government add weight to these rumors. The announced cause of friction between the army and the government is the presence of a civilian in the post of Minister of Defense, but this is possibly only one aspect of the army's resentment over their subordinate role in the Molas government. General Díaz de Vivar, Commander in Chief of the Armed Forces, was given full authority in February to reorganize the army, so that by now he should be its effective leader and in a position to organize such a coup with the aid of a few other key leaders. In view of Paraguay's propensity to armed revolt, B/LA estimates that the smoldering troubles within Paraguay could easily flare into open violence at any time. The timing of a revolt -- or its indefinite postponement -- lies in the hands of a few individuals whose intentions are not yet known.

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Argentine Crisis Eased Since Agreement with the UK

(Summary: Signature of the trade agreement with the UK on 27 June now appears to have introduced a new phase in the Perón government's effort to cope with the Argentine politico-economic crisis. The government has demonstrated renewed confidence and has made important decisions affecting prices and labor policy. Efforts to improve relations with the US have not slackened. But even successful implementation of the treaty would in itself by no means assure the revival of foreign trade which is essential to the restoration of Argentine political and economic health.)

Because considerable time would necessarily elapse before expansion of trade pursuant to the agreement could register an improvement in the economy, the renewed confidence of the government is to a large extent based on psychological factors. Supplies and equipment for industry and agriculture held in reserve against an emergency can now be released in anticipation of replenishment from the UK. Assurance provided in the treaty that Argentina will obtain its minimum fuel requirements, coming at a time when light and power are being severely rationed as an indirect result of the dollar shortage, has greatly relieved executive anxiety. Furthermore, completion of the agreement with the UK appears to have broken the logjam in trade negotiations with many other countries which had developed pending knowledge of availabilities and prices in the light of the UK accord.

Recent decisions are in marked contrast with the virtual paralysis that prevailed during the latter part of the protracted negotiations with the UK (see B/LA Wkly, 3 May, 31 May 49). The removal of price ceilings on milk, oils, edible fats, soap and tallow and elimination of the subsidy for meat consumption in the federal capital are outstanding among measures indicative of renewed executive confidence and capacity. This economically constructive step, clearly designed to improve the competitive relationship between domestic and external prices and thus expand exports, involves considerable political risk.

Labor discontent, which has been a paramount concern of the administration for many months (see B/LA Wkly, 26 Apr 49), will be aggravated by the sharp rise in prices of these necessities of from 50 to 100 percent

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that has already resulted from the removal of controls and the subsidy. In all probability Perón will be forced to concede new wage increases, thus accelerating Argentina's serious inflation. In committing himself to this course, therefore, Perón must have been confident of his ability to maintain his recently reported improved relations with army leaders. He evidently counts on the provision in the currently legislated budget of the largest military appropriation in Argentine history and the appearance, at least, of moving the economy from "dead center" with the UK agreement and subsequent action to placate those officers who were formerly disaffected over his "coddling of labor" and the deterioration of the economy.

Contrary to earlier apprehensions that Perón might resort to a sharply anti-US policy if, dissatisfied with the amount of US assistance extended Argentina in its crisis, he felt compelled to resort to another approach to recovery (see B/IA Wkly, 24 May and 31 May 49) there has as yet been no evidence of serious recrimination against the US. It is true that Perón made an acid comment regarding US interventionism apropos of the US protest to the British concerning the UK-Argentina agreement and he also pointedly selected a British vehicle from which to review the 9 July parade. On the other hand, in contrast with these relatively minor phenomena, which could be explained in terms of domestic political expediency, there have been several recent developments which in themselves appear to augur well for US-Argentina relations. Among these relatively favorable indications are (1) the dispatching to Washington of three key Argentine economists to work with the joint US-Argentine Commission for expansion of US-Argentine trade, suggesting that Perón is taking this effort seriously despite the many practical obstacles, (2) reports that US meat-packing firms are relatively well satisfied with current Argentine arrangements to protect their interests, (3) information to the effect that Finance Minister Ceretjo has noticeably modified his nationalist anti-US position, and (4) Argentine gratification with a recent substantial dollar purchase of meat by the US Army.

Through its renewed confidence and initiative, the Perón regime may succeed, as it has in the past, in deflecting serious political repercussions from economic maladjustments. But the basic problem of a highly inflated export-type economy confronted with declining world demand persists and no fundamental solution has yet been projected. There may be hesitancy on the part of either or of both the signatories fully to implement the treaty with the UK. Temporary export advantages gained through elimination of price controls and subsidies may very well be offset by the impetus to inflation which resultant wage demands will engender. The competitive export position would thus again suffer and the impact of shortages and further inflation again result in aggravated internal dislocations with their usual threats to stability.

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Communist Situation in Martinique and Guadeloupe

Reverses suffered by the Communist Party in Martinique and Guadeloupe are due primarily to changes in the underlying situation in metropolitan France and secondarily to changes in the islands themselves. It is unlikely, saving a reversal of trend in France, that the Communists in the islands will be able to recover their political ascendancy within the next year. The decline of Communist influence in the French West Indies, formerly one of the strongest links between European and Western Hemisphere Communism, is a gain for US security interests.

In the November 1948 elections, the Socialists captured both of Martinique's seats in the Council of the Republic, France's upper house, from the Communists. In June 1949 one of the islands' four Communist deputies to the French National Assembly resigned from the Party, probably because he was ordered to vacate his seat to make room for one of the defeated Communist councilors. The two French prefects, both actively anti-Communist, have thwarted Communist attempts to disrupt the sugar-grinding season with labor disorders.

Communist power and influence in Martinique and Guadeloupe in the 1945-48 period partially reflected Communist influence in metropolitan France. The fact that Communists are now no longer participants in the metropolitan government coalition and appear unlikely to come to power, tends to influence the islanders to select as their representatives to France individuals more acceptable to the central government and thus more likely to receive benefits from it. Also, French colonial authorities are no longer deterred from acting against the local Communists.

On the islands in 1945 the Communist leadership alone had the organization and popular appeal --- associated with resistance activities in continental France during World War II --- to fill the political vacuum created by the discrediting of the Vichyite colonial regime and its local supporters, the white planters. Today, the now-unified Socialists and the recently organized de Gaullists offer an alternative to Communist leadership.

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